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Coverage of environmental information in annual financial statements in a responsible manner

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Abstract

Once Romania joined the EU, environmental issues have become increasingly important for many national companies. In terms of environmental information, there is no universally accepted definition, but many published definitions of organizations in this area. For the first time the concept of environmental information was mentioned in the Rio Declaration in 1992 and defined by the Aarhus Convention in 1998: „Environmental Information means any information in written, visual, aural, electronic or any other material form on the state environmental elements and factors that may affect and influence the environmental elements”. In the present research from theoretical research will identify the main definitions and characteristics of environmental information and present developments in environmental accounting regulations both internationally and nationally, and in the basis of empirical research to establish how these environmental information are reported nationally in the annual financial statements in accordance with accounting standards and regulations in force.

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1. Introduction

The traditional model of financial accounting and financial reports published stresses the importance of financial results. According to this model the annual financial statements indicates the assets and liabilities, equity, profit and financial developments of the entity during the period considered, usually ignoring the environmental issues that have financial implications not strong enough to trigger the application of accounting criteria and minimizing the role of non-financial data. The concern for the interests of external users, rather than for those of shareholders began in the 70s and it is mainly related to the publication from 1975 of The Corporate Report (The Corporate Report). The accountancy specialists have started to question the profit considered to be the only measure of business performance and suggested an extended corporate responsibility for business. Users of financial statements requires information on risks and costs within the situation of an entity, the approach to environmental issues and performance registered in this field, the measurement or presentation of the elements can have consequences on the finances of the unit. An effective management depends on access to good quality, relevant information, that allows

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monitoring performance and opens the door to new forms of participation of interested partners. Environmental disclosure in annual reports is particularly important for users, who are informed about possible risks and environmental costs which an entity may employ. In these conditions, it is imposed a complete report that must capture aspects of economic, social and environmental outlines. Thus by this research will attempt to highlight the importance of presentation and publication of information on environmental protection and sustainable development in the annual financial statements, and finally propose a model paper for presenting the financial information environment in a responsible manner.

2. Definition and characteristics regarding environmental information

There is no universally accepted definition in terms of environmental information, but there are a lot of definitions published by the bodies concerned.

The concept of environmental information was mentioned for the first time by the Rio Declaration in 1992 and defined by the Aarhus Convention in 1998, according to article 2 states: “Environmental information means any information in written, visual, aural, electronic or any form of material, regarding: the state of environmental elements (air and atmosphere, water, soil, ground, landscape and natural areas), the factors (substances, energy, noise and radiation, and activities or measurements, including administrative measurements, environmental agreements, policies, legislation, plans and programs which affect or may affect environmental elements), the state of health and human safety”.

Directive 2003/4/EC of the European Parliament and the Council of 28 January 2003 on public access to information supplement this definition by reports on the implementation of environmental legislation and cost - benefit analyzes, or economic analyzes used for the measurements and activities necessary to maintain human health and safety and environmental elements.

Nationally environmental information is governed by GD 878/2005 regarding public access to environmental information, in which the environment information is defined as any information in written, visual, aural, electronic or any other material form on the state of environmental elements, factors, measures, reports and analyzes of environmental elements.

Environmental problems can not be addressed by the company in the same way they treat common problems, because the characteristics of environmental information are very different to the information traditionally used by the society as follows: greater complexity, high uncertainty and ambiguity, are difficult to measure.

Based on these characteristics in light of developing the present work on environmental information reflected in the financial statements, we consider environmental information that information in any form of presentation that allows the companies to reduce the negative impacts primarily exercised directly or indirectly on the environment.

3. Use of accountancy standards in environmental report

The environmental information is approached by the international accounting standards, that, beyond the way of presenting the environmental aspects, it also presents their reporting manner into the annual financial situation, as it follows:

- Accounting Advisory Forum of the European Union level recommends reporting the level of environmental costs through the account of profit and loss
- EC Recommendation 2001/453 provides the full cost environmental reporting in the notes to financial statements and also the manner of their calculation.
- IASB recommends the presentation through explicative notes to the financial statements for each class of tangible and intangible assets, including here also the environmental actives for the following information: the evaluation bases used for determining the book value, depreciation method and duration of useful lives, gross carrying amount and accumulated amortization, nature and effect of a change in an accounting estimation on residual values, estimated costs of dismantling, removal or restoration of elements.
- FAS 143 (American Accounting Standards) requires reporting onto the explicative notes of the financial statements by an entity the following information on the costs of rehabilitation or restoration of the area.

- EC Recommendation 2001/453 provides the fact that if there are any significant environmental liabilities it is appropriate to disclose them separately in the financial statements under "Other provisions".

- FAS 5 and IAS 37 provides that a contingent liability should be reported through the explanatory notes to the financial statements, if it is likely that this had occurred, although a reasonable estimate of its value can not be achieved. Reporting through the explicative notes to financial statements of contingent loss is appropriate if the probability of loss is at least "reasonably possible". If the probability of loss is "remote" then no reporting is required.

4. Reflection of environmental information in anual financial statements by the Romanian companies

In Romania, the legislation does not provide the obligation for the companies to present, in their financial situations, information regarding the environment. The publication of such information appears, generally, only in multinational companies.

The main purpose of the present work is the research of the manner that environmental information is presented nationally.

In order to realize the present research, we have used a questionnaire for identifying the manner in which the Romanian companies are involved in presenting the environmental information in annual financial statements.

This written questionnaire is sent to 100 respondents working in different fields, but they do not have exclusively a significant impact on the environment, but their answers are very important to validate the research hypothesis (the way the environmental information is submitted by companies in Romania).

Areas of activity included in the study are: production and supply of energy, water, gas (5 respondents), construction (14 respondents), metallurgy (10 respondents), education (10 respondents), public administration (10 respondents), banking institutions (11 respondents), transportation and waste disposal (5 respondents), food industry (10 respondents), mining (15 respondents), pharmaceuticals (5 respondents), commerce (5 respondents).

This written questionnaire was sent to respondents by e-mail, of the 100 questionnaires sent, we have received a response from 78 respondents, six of the questionnaires received could not be validated, because the answers were inconclusive, so the response rate is 72 %, thus we can consider the research relevant.

The answers, regarding the involvement of the organization in presenting and reflection of environmental information, can be summarized as follows:

Table 1. Involvement of Romanian companies in presenting the environmental aspects

Activity	Null	Low	Medium	High	Very high
Enironmental report in financial situations	35	21	16	0	0
Environmental report in other reports	33	20	19	0	0
Developing the environmental policy	27	33	12	0	0
Integration of environmental management systems	25	27	20	0	0
Environmental budgeting	56	16	0	0	0
Developing environmental performance indicators	31	28	13	0	0
Estimated depreciation and environmental losses	45	22	5	0	0
Environmental impact assessment	41	19	12	0	0

We observe, based on this information, that the involvement is pretty low, sometimes null, of the national companies in reporting the environmental information in financial statements or in other reports, only 22% of the interviewed companies are presenting environmental information in financial statements and 26% in other reports,

but also, in this case, their reflection is made in weak manner. However we can see that quite a number of important interviewees responded positively regarding the integration of environmental management and development of environmental policy, which is an evolution of environmental integration in the economic system.

To strengthen the results of this questionnaire, we used a descriptive analysis of annual reports on the web site of 50 national companies whose business activity has a major impact on the environment. We selected companies listed on Bucharest Stock Exchange for the study, because they provide annual reports, financial statements and other reports (administrators' reports, environmental reports, sustainability reports) which are publicly available, whereas for unlisted companies access to information is restricted. For all companies in the study we conducted a content analysis of the environmental information provided in annual reports (especially the annual report of the directors, or if it is the case, the environmental report or sustainable development report), reports available on the web sites of each companies. We have chosen this research method starting from Milne and Adler's conclusion that claimed that this is the most utilized method of investigating social and environmental reports of economic entities.

Following this research we conducted, we see that environmental information is presented in the annual report under Regulation CNVM no. 1/2006, and in the annual environmental report, conducted according to GD 878/2005. Also The Order 3055/2009, for approval of accounting regulations with European directives provides in section 10, a management report must contain information about the performance or financial position, financial and non-financial indicators - key performance relevant to specific activities, including information about aspects the environment and employees.

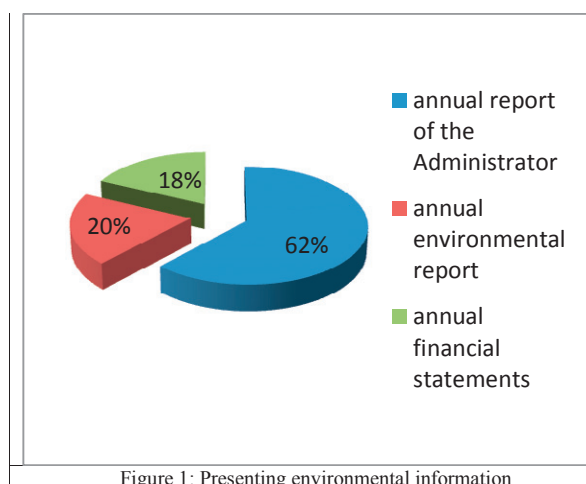


Figure 1: Presenting environmental information

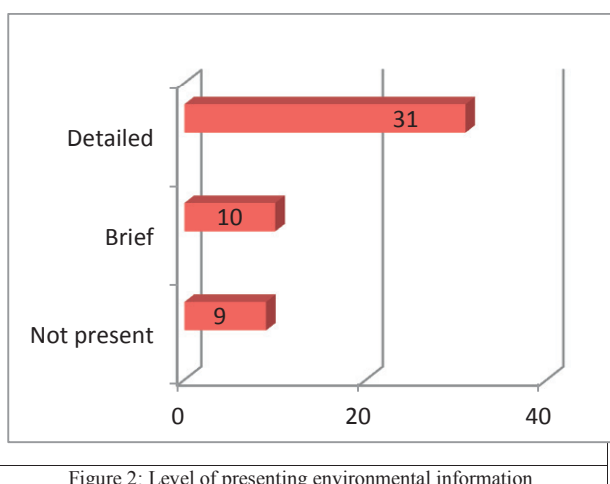


Figure 2: Level of presenting environmental information

National companies can be classified into three categories according to level of environmental Information presentation in annual statement, as follows: companies that have environmental information in a responsible manner and with a detailed report, companies which summarizes environmental information and companies which do not taking into account environmental issues and do not present this information in any report. Based on the two studies, we noted a significant influence that the public image of business has, thus the traded national companies present detailed information on the environment, integrating them both into the annual report of the administrator and in some cases these are supplemented by reports especially for the exclusive presentation of environmental information. Also, the company size plays an important role in the presentation and publication of environmental information, so is the case of small and medium companies, which are not required to submit detailed annual financial statements, only the short balance and simplified explicative notes, they rarely take into account the presentation of environmental information in their financial statements. The lack of accounting laws and the obligativity of reporting this information have led to a low level of reflection for environmental information in

annual situations or reports made by the economic agents.

Conclusions

The main objective for this present work is identifying a responsible model of presenting the environmental information in annual financial statements. Thus, we have started this research in the proper manner, by presenting the theoretical aspects regarding the environmental information and involvement of accountancy standards in presenting and reporting them, so that in the second half of the paper to debate the results of empirical research on environmental disclosure by companies in Romania.

International accounting organizations offer several opportunities for reporting environmental issues, most proposing their presentation through the explanatory notes to the financial statements.

Nationally there is no legal regulation to impose to companies the presentation of environmental information in a responsible manner; the form and content of these reports are up to the organization. Thus, for reflecting the environmental information, we consider necessary the preparation of annual financial statements of the environment. These must be realized in the same manner as annual financial statements, the same way that the financial reports present monetary information, the environmental financial situation must contain the monetary environmental information. This information has the role of presenting the real impact exerted by the business activity on the environment. Such a model of environmental financial statements should be regulated and have the same form and content for all companies that has to prepare the environmental situation.

This work is an essential step in environmental disclosure in annual financial statements at national and international levels, by identifying a model of environmental financial statement, model that is to be developed by the following research.

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